

## Company In-Depth

29 January 2007 | 16 pages

### Info Edge (INED.BO)

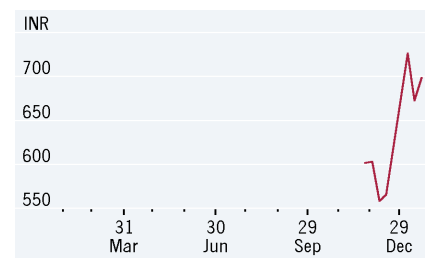
#### Buy: 3QFY07 Results - Better than Expectations

 Rating change   
 Target price change   
 Estimate change 

- 3Q Results: Comfortable "Top & Bottom" Beat** — Info Edge reported 3QFY07 (and 2Q) results yesterday after the market close. Revs of Rs363m (+71% yoy) and EPS of Rs 3.30 beat our 3Q estimates of Rs303m and Rs1.81.
- 4Q Outlook: Strong + Caution** — The company did not provide specific guidance for 4Q, but noted that this is historically the strongest quarter from a rev standpoint. However, management did caution (several times) that the costs in 3Q were abnormally low, and that the 9-month average costs were more representative of what 4Q costs would likely be.
- Naukri.com (Online Recruiting)** — Naukri, India's leading online recruiting site, posted strong 68% yoy growth to Rs335m, and contributed 92% of total revs, by our estimates. Resumes increased to >8 m and corporate clients to 22k (9-month total). Underlying demand for jobs in India is robust, and competition remains at bay.
- Matrimony & Property** — Both of these businesses remain in the investment phase and were loss making in the quarter. The company indicated that Jeevansathi could reach breakeven by the end of FY08, and 99acres perhaps a year after that.
- Valuation** — Info Edge is currently trading at 50.0x our FY08 and 34x our FY09 EPS (before ESOP) estimates, which is pricier than the regional peer group and reflects a scarcity premium, in our view.

<b>Buy/High Risk</b>	<b>1H</b>
Price (26 Jan 07)	Rs733.80
Target price	Rs750.00
Expected share price return	2.2%
Expected dividend yield	0.2%
<b>Expected total return</b>	<b>2.4%</b>
Market Cap	Rs20,029M
	US\$453M

#### Price Performance (RIC: INED.BO, BB: INFO IN)



See page 13 for Analyst Certification and important disclosures.

Figure 1. Info Edge Statistical Abstract

Year to 31 Mar	Revenues (Rs Mils.)	EBITDA (Rs Mils.)	Net Profit (Rs Mils.)	Reported EPS (Rs)	EPS before ESOP (Rs)	EPS Growth (%)	P/E (x)	EV/EBITDA (x)
FY05	441	39	3	0.12	3.65	NM	201.0	410.1
FY06	824	226	133	6.04	6.38	NM	115.1	69.6
FY07E	1,326	348	234	9.78	10.04	57.5	73.1	44.2
FY08E	1,875	508	393	14.34	14.68	46.3	50.0	34.5
FY09E	2,663	826	576	21.04	21.52	46.6	34.1	20.5

Source: Company Reports and Citigroup Investment Research

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<sup>1</sup>Citigroup Global Markets Asia

Fiscal year end 31-Mar	2005	2006	2007E	2008E	2009E
<b>Valuation Ratios</b>					
P/E adjusted (x)	nm	115.1	73.1	50.0	34.1
EV/EBITDA adjusted (x)	nm	87.4	53.6	34.5	20.6
P/BV (x)	127.4	65.3	8.7	8.5	7.0
Dividend yield (%)	0.1	0.1	0.2	0.2	0.3
<b>Per Share Data (Rs)</b>					
EPS adjusted	3.65	6.38	10.04	14.68	21.52
EPS reported	0.14	6.09	9.78	14.34	21.04
BVPS	5.76	11.23	84.30	86.16	104.51
DPS	0.43	0.75	1.10	1.62	2.37
<b>Profit &amp; Loss (RsM)</b>					
Net sales	441	824	1,326	1,875	2,663
Operating expenses	-413	-626	-1,018	-1,429	-1,931
<b>EBIT</b>	<b>28</b>	<b>198</b>	<b>308</b>	<b>447</b>	<b>732</b>
Net interest expense	-2	-4	0	0	0
Non-operating/exceptionals	11	17	45	144	134
<b>Pre-tax profit</b>	<b>37</b>	<b>210</b>	<b>353</b>	<b>591</b>	<b>866</b>
Tax	-33	-77	-119	-198	-290
Extraord./Min.Int./Pref.div.	0	0	0	0	0
<b>Reported net income</b>	<b>3</b>	<b>133</b>	<b>234</b>	<b>393</b>	<b>576</b>
Adjusted earnings	80	139	240	402	589
Adjusted EBITDA	39	226	348	508	826
<b>Growth Rates (%)</b>					
Sales	129.9	87.1	61.0	41.4	42.0
EBIT adjusted	-24.1	619.2	55.7	44.8	63.9
EBITDA adjusted	-11.0	483.0	54.2	46.2	62.4
EPS adjusted	231.6	74.7	57.4	46.3	46.6
<b>Cash Flow (RsM)</b>					
<b>Operating cash flow</b>	<b>108</b>	<b>330</b>	<b>367</b>	<b>401</b>	<b>692</b>
Depreciation/amortization	11	28	40	62	94
Net working capital	21	172	117	91	157
<b>Investing cash flow</b>	<b>-65</b>	<b>-155</b>	<b>-69</b>	<b>13</b>	<b>-52</b>
Capital expenditure	-55	-63	-93	-131	-186
Acquisitions/disposals	0	1	0	0	0
<b>Financing cash flow</b>	<b>-1</b>	<b>-10</b>	<b>1,549</b>	<b>-30</b>	<b>-50</b>
Borrowings	0	1	0	0	0
Dividends paid	0	-11	-19	-30	-50
<b>Change in cash</b>	<b>42</b>	<b>165</b>	<b>1,847</b>	<b>384</b>	<b>590</b>
<b>Balance Sheet (RsM)</b>					
<b>Total assets</b>	<b>314</b>	<b>634</b>	<b>2,588</b>	<b>3,095</b>	<b>3,854</b>
Cash & cash equivalent	156	321	2,168	2,552	3,142
Accounts receivable	9	12	27	38	53
Net fixed assets	60	95	148	218	310
<b>Total liabilities</b>	<b>188</b>	<b>389</b>	<b>571</b>	<b>735</b>	<b>992</b>
Accounts payable	174	364	535	679	912
Total Debt	1	2	2	2	2
<b>Shareholders' funds</b>	<b>126</b>	<b>245</b>	<b>2,017</b>	<b>2,359</b>	<b>2,862</b>
<b>Profitability/Solvency Ratios (%)</b>					
EBITDA margin adjusted	8.8	27.4	26.2	27.1	31.0
ROE adjusted	77.9	75.0	21.2	18.4	22.6
ROIC adjusted	na	na	na	na	na
Net debt to equity	-123.3	-130.2	-107.4	-108.1	-109.7
Total debt to capital	0.6	0.7	0.1	0.1	0.1

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## Highlights from the Conference Call

These are the 4 key takeaways from yesterday's results call:

### Demand outlook for the online recruiting market in India is robust

Consistent with our own research, management commented that the demand environment for recruiting services, in general, in India continues to be buoyant.

In fact, there are a number of reasons to be encouraged that demand for recruiting services is likely to only get significantly stronger in the future, including:

1. Attrition rates continue to climb in companies, which requires them to hire replacements;
2. Companies in India continue to experience very fast growth;
3. The Indian economy continues to grow at 8%+ yoy;
4. Supply constraints in the labor market could, according to management, start to occur in the coming year.

All of this is leading to strong demand today—and into the future—from IT Services, BPO, Retail, Financial Services, Banking, etc. for recruiting services in general, online services more particularly, and naukri.com specifically.

Finally, as has been seen in most other parts of the world with a growing Internet presence, the online portion of recruiting services is growing much faster than the print portion. Therefore, while the print classified market in India remains significantly larger than online, with online growing faster, it is clearly taking share.

All of these factors are positive for Info Edge, in our estimation.

### Naukri metrics continue to look strong

The key metrics for naukri.com were all strong in the quarter

1. **Revenues**—3Q revenues of Rs363m were up an estimated 68% yoy and 14% qoq;
2. **Corporate Clients**—through the first 9 months of FY07, Naukri had 22,000 corporate clients, compared to 20,000 for all of FY06;
3. **Resume Database**—the cumulative number of resumes in the Naukri database was >8 million, compared to only 5 million at the end of FY06. Critically, because this is a cumulative database, from 1997 to 2006, the company accumulated 5 million resumes, and added 3 million in just the last 9 months, suggesting demand for online services is accelerating.
4. **Corporate concentration**—this is something we also look at, but was not disclosed by the company—it expects to give this metric at year's end. However, the company did note that its two largest clients by resumes now

contribute more and Rs 1 crore, compared to only Rs 50 lakhs in FY06 (note: 1 crore is equal to 100 lakhs, or 10 million).

### **Competition remains at bay for Naukri**

The company admitted it did not have hard and fast data, but believed that it maintained its market dominant position. When we asked specifically about Monster India, and the fact that over the past year it localized its product offering, re-vamped its technology and spent heavily on marketing, Info Edge management, while acknowledging this, stated that it believes Monster India took share from #3 player JobsAhead.com.

Specifically, Info Edge believes that its overall market share is unchanged, although suggesting Monster has become stronger in the market.

A question was asked about Job Aggregators, such as Yahoo HotJobs or Rediff's job offering. Management indicated that aggregators represent both an opportunity—they can help direct traffic to the Naukri site—but also a potential threat—if the aggregator becomes too big and powerful. At this point, in the India market, as in many other markets, aggregators are still small, are not a significant source of Naukri's traffic or a significant factor in the overall market.

We expect competition will increase in the India online recruiting market. However, we continue to believe that Naukri has the strongest brand, a very strong management team, employs technology effectively, and that the entire market growth is probably accelerating. New competitors could possibly help grow the overall size of the market—especially given that the vast majority of classified ads are still spent on Print (e.g., newspapers).

Finally, the company noted, in response to our question, that there is definitely pricing pressure in the market. However, Naukri is gaining more customers at a fast clip (as discussed above) and is introducing more new products, helping to drive overall revenues.

### **No Acquisitions imminent**

We also asked on the call if the company was close to making any acquisitions. Recall that one of the stated uses of the IPO proceeds was for M&A.

Management stated that it is not in discussions with any targets, and does not have any specifically in mind. Rather, it plans to be opportunistic with respect to M&A if the right opportunity at the right price presents itself.

It indicated it would not do a deal in the eCommerce space, since it did not have enough expertise in that area, but would rather stick to "information exchange" based business models.

Finally, it indicated it would be willing to take strategic/minority stakes in businesses as well as outright takeovers.

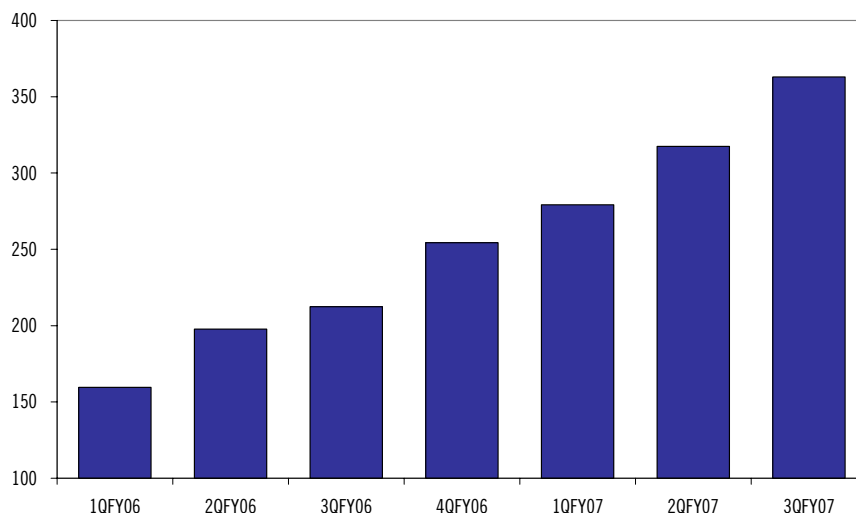
The significance of this, in our view, is there does not appear to be any acquisitions, which always run the risk of being dilutive, etc., on the near-term horizon.

## 3Q Results & Changes to Our Estimates

### Strong 3Q Results

Info Edge reported a better-than-expected set of results. Specifically, 3QFY07 revenues of Rs363m (+14% qoq, +71%yoy) bested our Rs303m estimate, while net profit of Rs82m (+130% qoq) also came in above our Rs49m estimate.

**Figure 2. Info Edge Quarterly Revenue Trend (Rs in Millions)**



Source: Company Reports and Citigroup Investment Research

Gross margins increased slightly to 90.2% in 3QFY07 from 88.7% in 2Q as the business scales on fixed infrastructure costs; a yoy comparison is not available.

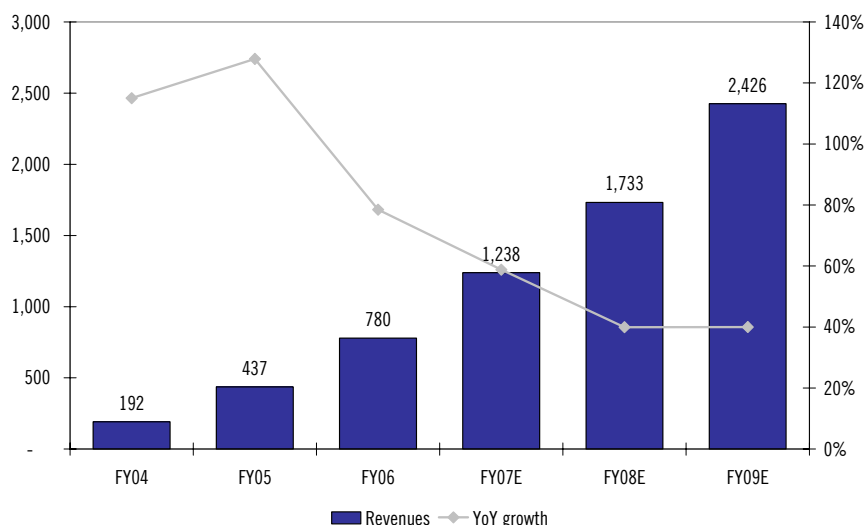
Operating margin increased dramatically to 29.0% in 3Q from 14.7% in 2Q, as the company significantly decreased its advertising spend. The company cautioned numerous times on the conference call, however, that one should not extrapolate the operating margin expansion trend for 4Q or the full year, given there will be fluctuations in variable costs (such as advertising) from quarter to quarter.

### New CIR Estimates

We have increased our revenue estimates for FY07-09 by 8.3%, 4.0% and 3.9%, respectively, on the back of the stronger-than-expected 3QFY07 results.

We are modeling 4QFY07 revenues to be Rs367m (+1.1% qoq, +44% yoy) to account for some seasonality as 4Q is a slightly stronger quarter, while still being conservative. Management elaborated on the conference call that while it does not observe significant seasonality between quarters, the fourth quarter tends to be the strongest in the year as companies use up remaining hiring budgets for the current year rather than dip into the proceeding year's budget.

Figure 3. Info Edge Recruitment Services Revenues (Rs in Millions, %)

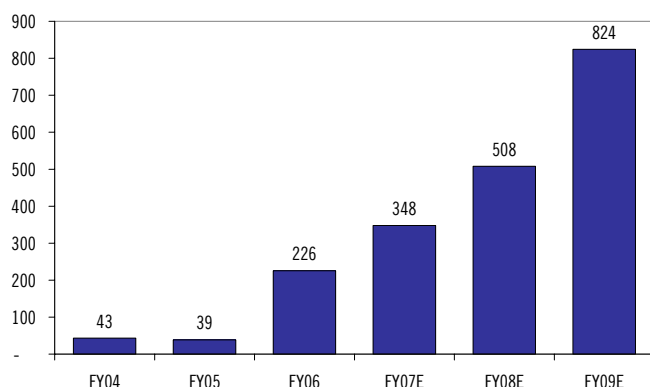


Source: Company Reports and Citigroup Investment Research

Our earnings estimates for FY07-09 are up by 13.4%, 0.4% and 0.5%, respectively. We have heeded management’s note of caution and accordingly modeled operating margins to be down qoq to 24.9% in 4QFY07 vs. 29.0% in 3QFY07 as we believe advertising spend will reverse trend and increase in 4Q. However, the greater than expected operating leverage seen in 2Q and 3Q of FY07 leads to a material increase in our FY07 estimates.

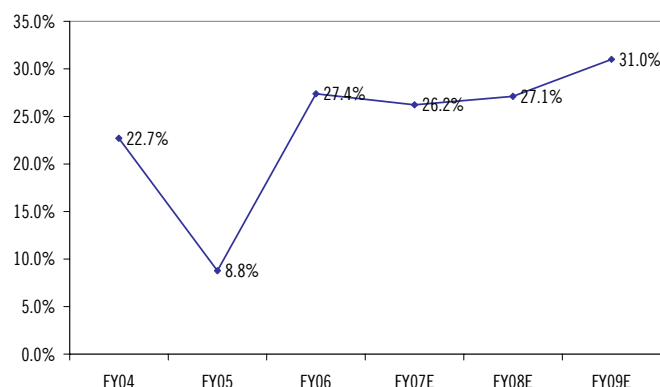
Moreover, we note that Jeevansathi.com and 99acres.com continue to remain in “investment mode” and are loss-making, thus dragging down margins. The company is investing increasing amounts in these two properties, and management does not expect Jeevansathi to break even for another 12 months and 99acres for another 24 months. As a result, while we believe that Naukri’s business will continue to scale, overall EBITDA margins are unlikely to rise significantly until at least FY09.

Figure 4. Info Edge EBITDA (Rs in Millions)



Source: Company Reports and Citigroup Investment Research

Figure 5. Info Edge EBITDA Margins



Source: Company Reports and Citigroup Investment Research

Figure 6. Info Edge Consolidated Income Statement (Rs in Millions)

Year to 31 Mar	FY04	FY05	FY06	FY1Q07	FY2Q07	FY3Q07	FY4Q07E	FY07E	FY08E	FY09E
Recruitment services	192	437	780	261	292	341	344	1,238	1,733	2,426
Other verticals	-	4	45	18	25	22	23	88	141	233
<b>Revenues</b>	<b>192</b>	<b>441</b>	<b>824</b>	<b>279</b>	<b>317</b>	<b>363</b>	<b>367</b>	<b>1,326</b>	1,874	2,659
Revenues yoy growth (%)	115.0%	129.9%	87.1%	75.0%	60.5%	70.9%	44.2%	61.0%	41.3%	41.9%
Cost of services (network and others)	32	53	92	28	36	35	39	137	193	239
Gross profit	160	388	732	252	282	328	328	1,189	1,681	2,420
Gross margin (%)	83.4%	88.0%	88.8%	90.1%	88.7%	90.2%	89.5%	89.6%	89.7%	91.0%
Personnel expenses	63	111	211	84	89	95	99	366	511	691
Administrative and other costs	52	147	288	92	134	115	128	469	652	891
Employees stock option plan comp	-	91	7	1	1	1	2	6	9	13
Deferred revenue expenditure written off	2	-	-	-	-	-	-	-	-	-
Total expenses	116	349	506	177	224	211	229	841	1,172	1,595
<b>EBITDA</b>	<b>43</b>	<b>39</b>	<b>226</b>	<b>75</b>	<b>57</b>	<b>117</b>	<b>99</b>	<b>348</b>	<b>508</b>	<b>824</b>
EBITDA margin (%)	22.7%	8.8%	27.4%	26.8%	18.1%	32.1%	27.0%	26.2%	27.1%	31.0%
Depreciation	7	11	28	10	11	11	8	40	62	94
Operating profit	36	28	198	65	47	105	91	308	446	731
Other income	3	11	17	14	9	16	6	45	144	134
Interest and financial charges	(1)	(2)	(4)	(1)	1	(0)	(0)	(0)	-	-
Profit before tax	39	37	210	78	57	121	97	353	590	865
Total tax	(14)	(33)	(77)	(26)	(21)	(40)	(33)	(119)	(198)	(290)
Net profit	24	3	133	52	36	82	65	234	392	575
Adjustments:										
Gratuity and leave encashment	(1)	(1)	(2)	-	-	-	-	-	-	-
Deferred tax credit	0	0	1	-	-	-	-	-	-	-
<b>Adjusted net profit</b>	<b>24</b>	<b>3</b>	<b>132</b>	<b>52</b>	<b>36</b>	<b>82</b>	<b>65</b>	<b>234</b>	<b>392</b>	<b>575</b>
EPS (Rs) - after ESOP	1.10	0.12	6.04	2.39	1.73	3.30	2.36	9.78	14.33	21.01
EPS (Rs) - before ESOP	1.10	3.65	6.38	2.46	1.79	3.36	2.43	10.04	14.68	21.49
Weighted average shares (m)	21.82	21.84	21.84	21.84	20.57	24.72	27.38	23.92	27.38	27.38

Source: Company Reports and Citigroup Investment Research

**Figure 7. Info Edge Consolidated Balance Sheet (Rs in Millions)**

<b>Year to 31 Mar</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>	<b>FY09E</b>
Fixed assets					
Gross amount	88	151	244	375	561
Less: depreciation	(29)	(56)	(96)	(158)	(251)
Net fixed assets	59	95	148	217	310
Capital work in progress	1	-	-	-	-
Total fixed assets	60	95	148	217	310
Short-term non-trade quote investments	21	126	126	126	126
Advance recoverable from ESOP trust	15	16	16	16	16
Current assets, loans and advances	-	-	49	-	-
Sundry debtors	9	12	27	37	53
Cash and bank balances	156	321	2,168	2,552	3,141
Loans and advances	53	64	102	145	205
Total current assets	217	397	2,297	2,734	3,399
Profit and loss account	1	-	-	-	-
<b>Total assets</b>	<b>314</b>	<b>634</b>	<b>2,588</b>	<b>3,094</b>	<b>3,851</b>
Current liabilities and provisions					
Current liabilities	174	364	535	678	911
Provisions	1	3	4	4	4
Dividend payable (including dividend tax)	11	19	30	50	74
Total current liabilities	186	386	568	732	988
Secured loans	1	2	2	2	2
Deferred tax liability/(asset)	1	1	1	1	1
Total liabilities	188	389	571	735	991
Share capital	62	218	218	218	218
ESOP outstanding account	2	6	6	6	6
Securities premium account	9	-	1,568	1,568	1,568
General reserve	52	16	220	562	1,064
Profit and loss account	-	5	5	5	5
<b>Total shareholders' equity</b>	<b>126</b>	<b>245</b>	<b>2,017</b>	<b>2,359</b>	<b>2,861</b>
<b>Total liabilities and equity</b>	<b>314</b>	<b>634</b>	<b>2,588</b>	<b>3,094</b>	<b>3,851</b>

Source: Company Reports and Citigroup Investment Research



**Figure 8. Info Edge Consolidated Cash Flow Statement (Rs in Millions)**

<b>Year to 31 Mar</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>	<b>FY09E</b>
Net profit before tax	37	210	353	590	865
Depreciation	11	28	40	62	94
Interest income	(5)	(13)	(19)	(138)	(128)
Dividend income received	(1)	(2)	(4)	(6)	(7)
Debts/advances written off	4	-	-	-	-
Provision for doubtful debts and advances	2	2	-	-	-
Liability no longer required written back	(5)	(1)	-	-	-
Provision for gratuity and leave encashment	2	3	-	-	-
Employee stock option expense written off	91	7	-	-	-
Change in debtors	(7)	(6)	(14)	(11)	(16)
Change in other current assets	(75)	(11)	(39)	(42)	(61)
Change in current liabilities	103	189	170	143	232
Direct taxes paid	(48)	(75)	(119)	(198)	(290)
<b>Net operating cash flow</b>	<b>108</b>	<b>330</b>	<b>367</b>	<b>401</b>	<b>691</b>
Purchase of fixed assets	(55)	(63)	(93)	(131)	(186)
Proceeds on sale of fixed assets	0	1	-	-	-
Purchase of investments (net)	(21)	(121)	-	-	-
Proceeds from sale of investments	5	15	-	-	-
Interest received	4	10	19	138	128
Dividend received	1	2	4	6	7
<b>Net investing cash flow</b>	<b>(65)</b>	<b>(155)</b>	<b>(69)</b>	<b>13</b>	<b>(52)</b>
Proceeds from fresh issue of share capital	-	-	1,704	-	-
IPO issuing costs	-	-	(136)	-	-
Proceeds from long-term borrowing (net)	0	1	-	-	-
Dividends paid	(0)	(9)	(16)	(26)	(44)
Dividend tax paid	(0)	(1)	(2)	(4)	(6)
<b>Net financing cash flow</b>	<b>(1)</b>	<b>(10)</b>	<b>1,549</b>	<b>(30)</b>	<b>(50)</b>
<b>Net change in cash and equivalents</b>	<b>42</b>	<b>165</b>	<b>1,847</b>	<b>383</b>	<b>589</b>
Cash and equivalents, BOP	114	156	321	2,168	2,552
Cash and equivalents, EOP	156	321	2,168	2,552	3,141

Source: Company Reports and Citigroup Investment Research

## Valuation

We use P/E as our primary valuation method for Info Edge, as with other Asia Internet companies within our coverage universe.

Our Rs750 price target represents 51x and 35x our FY08 and FY09 EPS estimates, respectively, vs. the Global Internet peer group that is trading at 34x and 25x, respectively. Info Edge clearly is pricier than the collective peer group.

Figure 9. Relative Valuation Comparisons

	RIC	Rating	Prc Crcy	Price 26 Jan 07	Market cap US\$m	P/E (x)			EV/EBITDA (x)			PEG
						06/FY07E	07/FY08E	08/FY09E	06/FY07E	07/FY08E	08/FY09E	
<b>India Internet</b>												
Info Edge	INED.BO	1H	Rs	733.80	397	73.1	50.0	34.1	44.2	34.5	20.5	1.0
Rediff	REDF.O	NR	US\$	19.37	499	88.0	69.2	46.1	92.8	53.7	31.7	1.0
Sify	SIFY.O	NR	US\$	7.87	336	54.3	40.4	NA	16.7	13.2	NA	NM
<b>India Internet average</b>						<b>71.8</b>	<b>53.2</b>	<b>40.1</b>	<b>51.2</b>	<b>33.8</b>	<b>26.1</b>	<b>1.0</b>
<b>Online Recruiting</b>												
104 Corp	3130.TW	NR	NT\$	210.50	262	24.0	21.3	17.8	18.1	16.1	14.2	3.5
51job	JOBS.O	2S	US\$	16.56	460	28.3	21.9	16.3	20.8	15.0	9.8	0.6
Info Edge	INED.BO	1H	Rs	733.80	397	73.1	50.0	34.1	44.2	34.5	20.5	1.0
Jobstreet	JOBST.KL	NR	RM	1.66	96	16.4	13.7	10.6	15.0	11.8	9.6	0.5
Monster	MNST.O	2H	US\$	48.26	6,201	40.9	29.6	23.5	21.1	14.7	10.9	0.7
SEEK	SEK.AX	NR	A\$	6.24	1,372	36.5	27.7	24.1	24.3	18.1	16.1	0.9
<b>Online Recruiting average</b>						<b>39.0</b>	<b>28.6</b>	<b>21.7</b>	<b>25.1</b>	<b>18.8</b>	<b>13.4</b>	<b>0.7</b>
<b>China Internet</b>												
51job	JOBS.O	2S	US\$	16.56	460	28.3	21.9	16.3	20.8	15.0	9.8	0.6
Baidu	BIDU.O	2H	US\$	123.40	4,109	107.1	60.0	44.6	100.7	47.3	32.0	0.6
Ctrip	CTRP.O	1L	US\$	69.90	2,336	64.1	43.5	31.8	66.4	43.6	29.8	1.2
eLong	LONG.O	NR	US\$	12.93	336	184.7	53.2	21.2	NM	NA	NA	NM
Netease	NTES.O	3H	US\$	20.44	2,661	17.6	18.9	17.7	18.8	13.5	12.3	1.5
Shanda	SNDA.O	NR	US\$	22.54	1,672	29.2	23.6	20.5	25.4	16.9	13.8	0.4
Sina	SINA.O	1M	US\$	35.32	1,892	39.9	32.8	27.1	33.4	26.0	22.7	1.8
Sohu	SOHU.O	1M	US\$	26.03	955	30.6	24.9	17.2	26.7	20.6	12.3	1.0
Tencent	0700.HK	1L	HK\$	31.60	7,186	59.1	45.4	33.4	44.9	33.1	23.3	0.8
The9	NCTY.O	1M	US\$	37.63	922	24.9	18.5	14.4	18.8	12.7	8.7	0.2
<b>China Internet average</b>						<b>58.5</b>	<b>34.3</b>	<b>24.4</b>	<b>39.5</b>	<b>25.4</b>	<b>18.3</b>	<b>0.9</b>
<b>US Internet</b>												
Amazon	AMZN.O	3H	US\$	36.85	15,179	89.3	46.7	35.4	25.2	18.0	14.3	6.5
eBay	EBAY.O	1H	US\$	31.65	44,124	30.2	24.5	21.0	16.3	13.4	11.2	1.2
Expedia	EXPE.O	2H	US\$	20.62	6,300	19.5	17.4	15.6	31.7	25.5	21.4	3.8
Google	GOOG.O	1H	US\$	495.84	151,805	48.8	36.4	29.6	34.4	22.5	16.7	0.8
IAC/InterActive Corp	IACI.O	2H	US\$	37.74	11,084	26.0	21.4	17.8	10.4	9.0	6.9	4.4
Monster	MNST.O	2H	US\$	48.26	6,201	40.9	29.6	23.5	21.1	14.7	10.9	0.7
Priceline	PCLN.O	2S	US\$	42.29	1,545	22.5	16.0	15.9	13.1	9.9	7.3	0.6
Yahoo	YHOO.O	1H	US\$	28.04	38,141	54.6	54.1	42.2	24.1	23.0	17.9	11.9
<b>US Internet average</b>						<b>41.5</b>	<b>30.8</b>	<b>25.1</b>	<b>22.0</b>	<b>17.0</b>	<b>13.3</b>	<b>3.7</b>
<b>Global Internet average</b>						<b>50.8</b>	<b>33.6</b>	<b>25.1</b>	<b>32.5</b>	<b>22.3</b>	<b>16.5</b>	<b>2.0</b>

Source: Company Reports, Citigroup Investment Research estimates and IBES for NR stocks

As can be seen from the above chart, Info Edge is clearly trading at a premium to the Global Online Recruiting peer group average, the China Internet group average as well as the Global Internet peer group average.

### Comparison with Rediff and Sify

A comparison to other India Internet companies, however, suggests Info Edge's valuation is more reasonable.

Info Edge looks absolutely cheap compared to Rediff, in our view

Rediff, a leading India portal listed on the NASDAQ, trades at 69x and 46x consensus FY08 and FY09 EPS estimates, respectively, more in-line with our PT multiples for Info Edge.

Sify, the other NASDAQ listed India Internet play—although it is less of a pure-play portal than Rediff—trades at 40x consensus FY08 EPS (with FY09 unavailable).

Rediff and Sify have a history of being loss-making businesses and have only recently turned profitable, but still do not have any meaningful earnings.

### **Comparison to broader peer group**

We observe that leading players like Google, Baidu and Monster are growing at 40-60% yoy growth rates, despite having a much higher revenue/profit base compared to Info Edge. Though these stocks may trade at very high P/E multiples in absolute terms, we note that on a growth-adjusted basis over the next two years, many Internet stocks trade at PEGs of less than 1.0x.

### **Info Edge merits a premium valuation**

There are a number of factors that help explain Info Edge's premium.

First, Info Edge is, in our view, enjoying a "scarcity premium" resulting from the fact that it is the first, and only, locally listed pure-play Internet company in India—a local market that is, we might add, booming.

Second, the company is growing very fast and is highly profitable (for an Indian Internet company). As noted, the company possesses strong financials with revenues of Rs824m (+87% yoy) and profits of Rs140m (+49% yoy) in FY06. We expect that the company will have a strong cash balance of US\$49m at YEFY07E.

Rediff, in contrast, has been loss-making for most of this decade, and generated a net profit of only US\$1.2m (Rs54m) in FY06.

Similarly, Sify reported a net loss of Rs60m in FY06.

Finally, we believe that Info Edge's management team's decade-long experience in the India Internet sector, combined with its stated strategy of wanting to use M&A to expand its footprint in the nascent India Internet market, suggests that investors today are likely buying a company that could become one of, if not the, largest, most dominant Internet plays in India.

### **Key Investment Highlights on Info Edge:**

1. India's leading online classifieds company
2. Demonstrated leadership in online recruitment
3. Established brands
4. Rapid growth in emerging India Internet market.
5. Experienced management team and reputable investors
6. Deep relationship with corporate clients
7. Proven track record of growth and profitability

8. Favorable macro and demographic trends.

## Info Edge

### Company description

Info Edge operates India's leading online recruitment and classifieds portal [Naukri.com](http://Naukri.com), which was launched in 1997. The company was incorporated in 1995. In addition to online recruitment, the company generates revenue through an executive search agency named Quadrangle, as well as a matrimony portal ([Jeevansathi.com](http://Jeevansathi.com)) and a property portal ([99acres.com](http://99acres.com)). Info Edge has been listed on the Bombay Stock Exchange since November 2006.

### Investment thesis

We rate Info Edge as Buy/High Risk (1H) with a target price of Rs750. Info Edge's [naukri.com](http://naukri.com) is India's leading online recruitment classifieds portal, a service that is well suited to the early stages of the India Internet market, in our view. Naukri contributes ~95% of the company's revenues, and upside exists through the company's operation of matrimony sites and a real estate site that stand to benefit from rising adoption of the Internet in the country. This could enable Info Edge to become one of the dominant Internet players in India. Over FY06-09E, we forecast a revenue CAGR of 48% and a net profit CAGR of 63%.

### Valuation

Our target price of Rs750 is based on 35x our FY09E EPS (year-end March), adjusted for ESOP costs. Our target multiple is set at 40-60% premiums to our China and global Internet peer groups, given the scarcity premium applied to the stock (being the only pure-play Internet company currently listed in India) and a market positioning that we see as delivering a 63% CAGR in net profit over FY06-09E. Yet our 35x target multiple is at a significant discount to Rediff, an Indian portal company listed on the Nasdaq, which is trading at 46x consensus FY09E EPS.

### Risk

Under our quantitative risk-rating system, a default Speculative Risk rating should be applied to Info Edge, given that the stock has been publicly listed for less than two months. However, we believe that a High Risk rating is more appropriate for the company given its track record of profitability and its market leadership. Downside risks facing the company include: 1) a slowdown in the Indian economy that would directly impact employment and recruiting demand; 2) increasing competition; 3) increased churn of posted resumes; 4) lack of policies against online fraud; and 5) greater and more prolonged losses from new verticals.

## Analyst Certification Appendix A-1

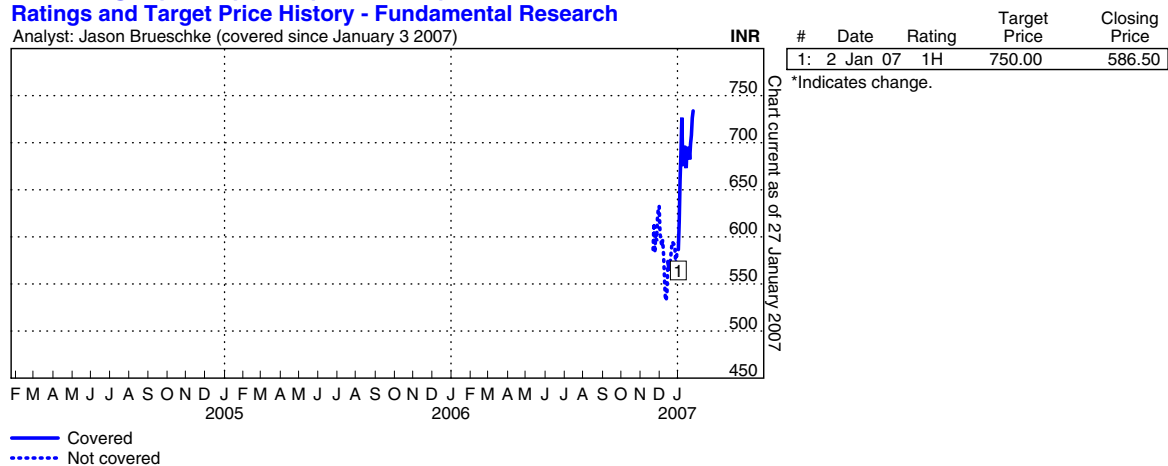
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##### Ratings and Target Price History - Fundamental Research

Analyst: Jason Brueschke (covered since January 3 2007)



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29 January 2007

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